

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

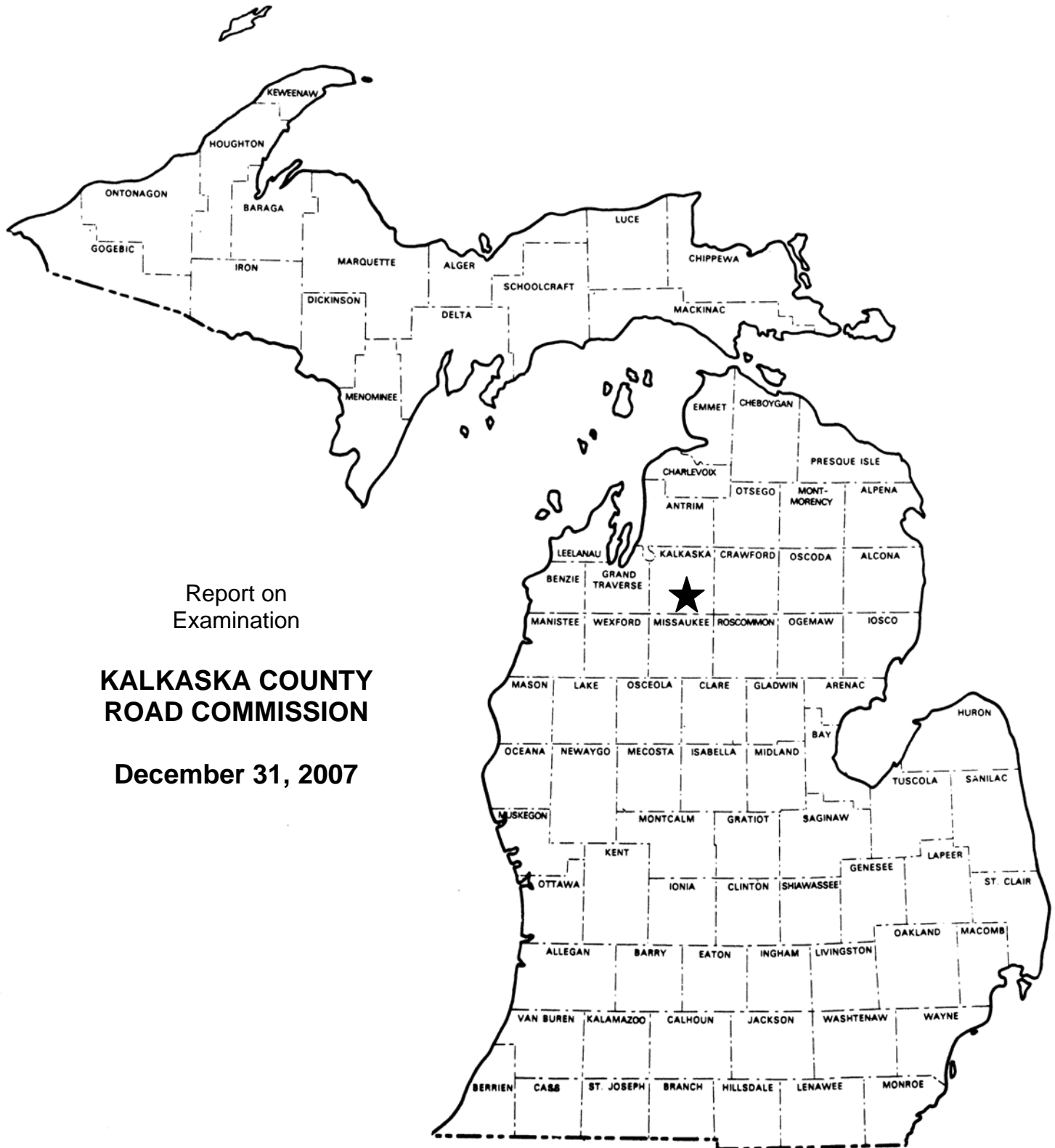
1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**KALKASKA COUNTY
ROAD COMMISSION**

December 31, 2007

KALKASKA COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

George Nice
Chairperson

James Green
Vice Chairperson

Jacob Uitvlugt
Member

Margaret Custer
Member

William Campbell
Member

James Woodhams
Manager

Rebecca Jerry
Clerk/Office Manager

COUNTY POPULATION--2000
16,571

STATE EQUALIZED VALUATION--2007
\$1,068,613,713



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

April 3, 2008

Kalkaska County Road Commission
Board of County Road Commissioners
1049 Island Lake Road
Kalkaska, Michigan 49646

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying basic financial statements of the Kalkaska County Road Commission, a component unit of Kalkaska County, Michigan, as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kalkaska County Road Commission, as of December 31, 2007 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 3, 2008, on our consideration of the Kalkaska County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 9 and the budgetary comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kalkaska County Road Commission's basic financial statements. The accompanying supplementary and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

KALKASKA COUNTY ROAD COMMISSION

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KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Kalkaska County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the Operating Fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on the General Fund, reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's Major Fund begins on page 4 and provides detailed information about the Major Fund.

The Governmental Fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 1.91% from \$14,503,607 (after a restatement of \$1,192,005) to \$14,781,027 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net of related debt) are considered restricted.

The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets as of year ended December 31, 2007 follows:

	<u>2006</u>	<u>2007</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 930,957	\$ 1,327,675	\$ 396,718	42.61%
Capital Assets	<u>13,135,971</u>	<u>14,064,291</u>	<u>928,320</u>	<u>7.07%</u>
Total Assets	<u>14,066,928</u>	<u>15,391,966</u>	<u>1,325,038</u>	<u>9.42%</u>
Current and Other Liabilities	178,736	259,712	80,976	45%
Long-Term Liabilities	<u>576,590</u>	<u>351,227</u>	<u>(225,363)</u>	<u>-39.09%</u>
Total Liabilities	<u>755,326</u>	<u>610,939</u>	<u>(144,387)</u>	<u>-19.12%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	13,907,036	13,833,065	(73,971)	-0.53%
Restricted	<u>596,571</u>	<u>947,962</u>	<u>351,391</u>	<u>58.90%</u>
Total Net Assets	<u>\$ 14,503,607</u>	<u>\$ 14,781,027</u>	<u>\$ 277,420</u>	<u>1.91%</u>

The restricted net assets increased by \$351,391 during 2007. The primary reason for the increase was a decrease in primary and local routine, preventive maintenance expenses, compensated absences and infrastructure depreciation. The net assets invested in capital assets-net of related debt decreased by \$73,971 for infrastructure assets. There was a restatement of capital assets that reclassified the depreciable portion from the nondepreciable portion of the gravel and asphalt road infrastructure. The separation of the assets had not been broken down in the prior years.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2007 follows:

<u>Governmental Activities</u>	<u>2006</u>	<u>2007</u>	<u>Difference</u>	<u>Percentage</u>
Program Revenue				
Licenses and Permits	\$ 35,710	\$ 31,305	\$ (4,405)	-12.34%
Charges for Services	3,529	3,743	214	6.06%
Operating Grants and Contributions				
Michigan Transportation Funds	3,284,300	3,254,704	(29,596)	-0.90%
Investment Earnings	4,820	5,725	905	18.78%
Capital Grants and Contributions				
Federal Grant	994,451	101,805	(892,646)	-89.76%
State Grants	331,275	108,113	(223,162)	-67.36%
Contributions From Local Units	433,180	371,766	(61,414)	-14.18%
Contributions From Private Sources		236,498	236,498	100.00%
Total Revenues	<u>5,087,265</u>	<u>4,113,659</u>	<u>(973,606)</u>	<u>-19.14%</u>
Expenses				
Primary Routine and Preventive Road Maintenance	1,418,317	1,242,779	175,538	12.38%
Local Routine and Preventive Road Maintenance	1,385,425	1,337,758	47,667	3.44%
Net Equipment Expense	71,685	(28,178)	99,863	139.31%
Net Administrative Expense	368,130	462,145	(94,015)	-25.54%
Infrastructure Depreciation Expense	918,414	844,754	73,660	8.02%
Compensated Absences	42,250	(40,253)	82,503	195.27%
Interest Expense	19,086	17,234	1,852	9.70%
Total Program Expenses	<u>4,223,307</u>	<u>3,836,239</u>	<u>387,068</u>	<u>9.17%</u>
Change in Net Assets	<u>863,958</u>	<u>277,420</u>	<u>(586,538)</u>	<u>-67.89%</u>
Ending Restated Net Assets	<u>\$14,503,607</u>	<u>\$14,781,027</u>	<u>\$ 277,420</u>	<u>1.91%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2007, the fund balance of the General Operations Fund increased \$311,138 as compared to an increase of \$224,483 in the fund balance for the year ended December 31, 2006. Total revenues were \$4,113,659, a decrease of \$943,088 as compared to last year. This change in revenues resulted primarily from a decrease in Federal and State Grants. Total expenditures were \$3,802,521, a decrease of \$1,060,262 as compared to last year. This change in expenditures is due primarily to a decrease in primary road preservation and structural improvements, and a decrease in primary and local routine and preventive maintenance.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of changes in the Operating Fund is as follows:

	12/31/06 Operating Fund	12/31/07 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
Licenses and Permits	\$ 35,710	\$ 31,305	\$ (4,405)	-12.34%
Federal Grants	994,451	101,805	(892,646)	100.00%
State Grants	3,615,575	3,362,817	(252,758)	-6.99%
Contributions From Local Units	433,181	371,766	(61,415)	-14.18%
Charges for Services	3,529	3,743	214	6.06%
Interest and Rents	4,820	5,725	905	18.78%
Other Revenue		236,498	236,498	100.00%
Total Revenues	<u>5,087,266</u>	<u>4,113,659</u>	<u>(973,607)</u>	<u>-19.14%</u>
Expenditures				
Public Works	4,657,672	3,583,783	1,073,889	23.06%
Capital Outlay		11,790	(11,790)	-100.00%
Debt Service	<u>205,111</u>	<u>206,948</u>	<u>(1,837)</u>	<u>-0.90%</u>
Total Expenditures	<u>4,862,783</u>	<u>3,802,521</u>	<u>1,060,262</u>	<u>21.80%</u>
Excess of Revenues Over (Under) Expenditures	<u>224,483</u>	<u>311,138</u>	<u>86,655</u>	<u>38.60%</u>
Fund Balance--Beginning of Year	<u>527,738</u>	<u>752,221</u>	<u>224,483</u>	<u>42.54%</u>
Fund Balance--End of Year	<u>\$ 752,221</u>	<u>\$ 1,063,359</u>	<u>\$ 311,138</u>	<u>41.36%</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board did not amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. The budget was amended after the year ended. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2007 was \$1,245,102 higher than the original budget. The amended budget reduced the Federal and State aid and increased township contributions. The actual revenue recognized during 2007 was \$60,542 less than the final amended budget due to the Road Commission receiving less in Michigan Transportation Funds and township contributions.

The final expenditure budget for 2007 was \$1,195,000 less than the original budget. The final amended budget decreased the primary and local preservation/structural improvements, and increased capital outlay credits. The actual expenditures were less than the budgeted amount by \$268,533.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

As of December 31, 2007, the Road Commission had invested \$14,064,291 in capital assets. This amount represents a net decrease (including additions and deductions) of \$263,684 or 1.84% as follows:

	Restated 2006	2007	Total Percentage Change 2006/07
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 95,964	\$ 95,964	0.00%
Land and Improvements	2,820,585	2,937,268	4.14%
Subtotal	2,916,549	3,033,232	4.00%
Capital Assets Being Depreciated			
Buildings	582,153	582,153	0.00%
Equipment	3,888,095	3,850,239	-0.97%
Infrastructure--Roads and Bridges	17,702,968	17,812,747	0.62%
Subtotal	22,173,216	22,245,139	0.32%
Total Capital Assets	25,089,765	25,278,371	0.75%
Total Accumulated Depreciation	(10,761,790)	(11,214,080)	4.20%
Total Net Capital Assets	\$ 14,327,975	\$ 14,064,291	-1.84%

The infrastructure recorded during 2007 will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital asset additions included the following:

Shop Equipment	\$ 11,790
Infrastructure--Roads	833,447
Total Additions	<u>\$ 845,237</u>

There were no new installment purchase agreements entered into during 2007. Prior to 2005, there were three installment purchase agreements; one was paid off during 2007. The beginning principal balance was \$420,940 and there was \$189,713 paid in principal during 2007, leaving a balance due of \$231,227.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the calendar year 2008 budget. One of the factors was the economy. When the 2007 budget was prepared, the Road Commission anticipated no township involvement, nor did they anticipate any new capital purchases for the year. During 2007, townships stepped forward with local contributions in the amount of \$371,766, allowing for projects to be completed in four townships. In addition, Trans-Canada Pipeline provided funds in the amount of \$240,000 for a road project in Blue Lake and Coldsprings Townships.

The Road Commission projected the 2008 MTF budget by decreasing the MTF funds received in 2007 by 4%. In 2007, the Road Commission derived approximated 79% of its revenues from the Michigan Transportation Funds, approximately 5% of its revenues from Federal and State grants, 9% of its revenues from local contributions and 7% of its revenues from other sources. In 2008, these amounts will fluctuate with the approved road projects, depending on what and how much the Townships can afford to participate and the proposed decrease in MTF funding.

At the time the 2008 budget was prepared, the Road Commission was working with townships to anticipate proposed projects. The Road Commission is projecting similar township involvement for the fiscal year 2008. The Road Commission is in the process of working with the townships to see if the proposed projects will be monetarily feasible.

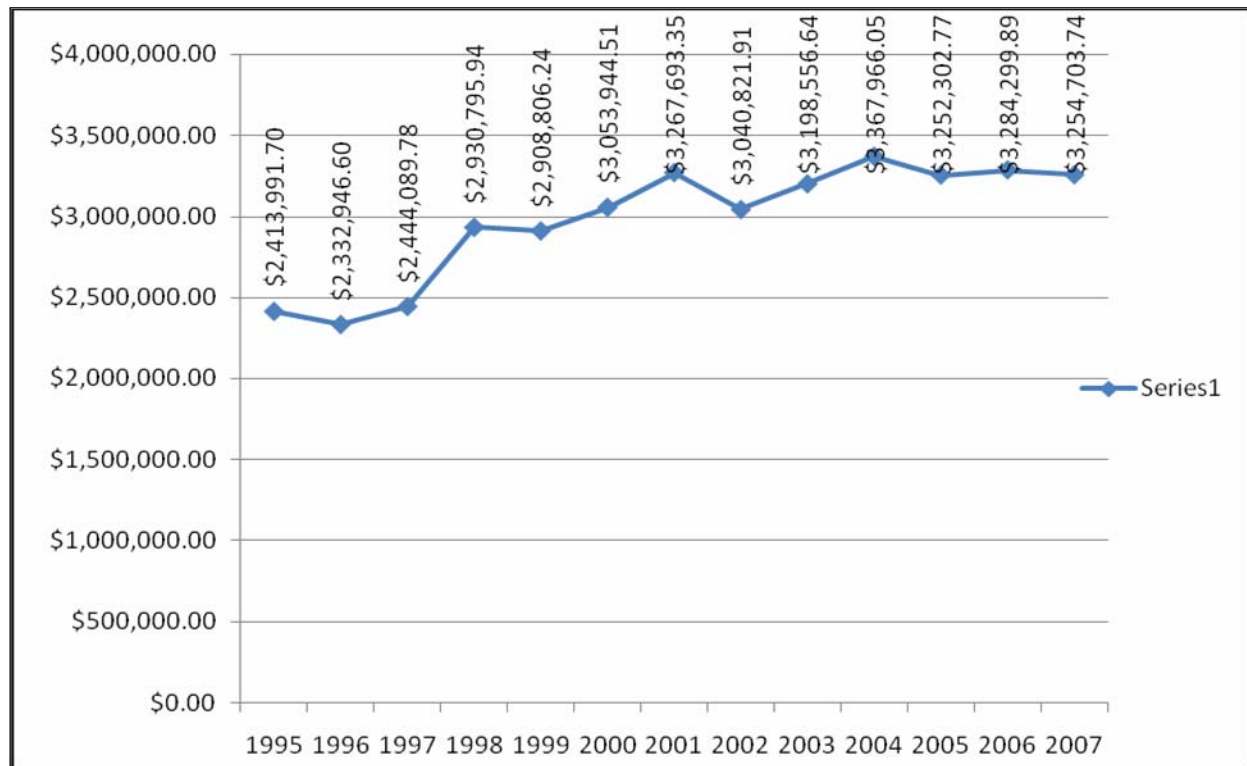
During 2007, the Road Commission expected to receive approximately \$2,000,000 in Federal and State Aid. This included a Local Jobs Today grant for road projects and to also increase preservation and structural improvement by the same amount. While the Road Commission did not receive the funding in 2007, as the project was delayed until the spring of 2008, those funds have been included in the 2008 budget.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Below is a summary of the trends in the MTF revenue allocations to the Kalkaska County Road Commission during the recent years. MTF funds have stayed the same and/or decreased over the past years, but costs for construction and maintenance have increased greatly. Like other Road Commissions, the Kalkaska County Road Commission has been looking for measures to reduce spending and keep costs down.

KALKASKA COUNTY ROAD COMMISSION MTF FUNDS FROM 1995 TO 2007



A major concern for the Road Commission is increased fuel costs and a projected decline in fuel tax collections due to less consumption. Michigan's economic conditions will also play a major factor in future funding as most of the Road Commission's revenue is received from the State.

While a significant portion of the Road Commission revenue is derived from State and Federal sources to partially fund improvement projects, local funding is also needed to provide matching dollars. Township contributions are anticipated to help provide revenue towards projects and maintenance activities in 2008.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission paid off one loan in 2007. Another loan will be paid off the first quarter of 2008 which leaves one loan payment for the remainder of the fiscal year. This loan will be paid in full during the 2009 fiscal year. Expenditure concerns also include increased fuel expenses; increases in materials such as asphalt and aggregate; continued health insurance cost increases; increases in funds used to maintain the existing and deteriorating fleet; and unfunded employee retirement liability. The board anticipates setting aside funding for purchases of limited capital expenditures.

Management continues to be concerned with insufficient funds available to adequately take care of the county road system. Drainage improvements, preventative maintenance, reconstruction, bituminous resurfacing and surfacing of gravel roads throughout the county are needed. These will need to be addressed in the future.

Contacting the Road Commission's Financial Management

The financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Kalkaska County Road Commission, Administrative Office at 1049 Island Lake Road, Kalkaska, Michigan 49646, Phone Number (231) 258-2242.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2007

EXHIBIT A

ASSETS

Bank Deposits	\$ 505,179
Accounts Receivable	
Michigan Transportation Fund	462,657
Due on County Road Agreements	3,541
Sundry Accounts	1,025
Inventories	
Road Materials	222,602
Equipment Parts and Materials	132,671
Capital Assets (Net of Accumulated Depreciation)	<u>14,064,291</u>
Total Assets	<u>15,391,966</u>

LIABILITIES

Current Liabilities	
Accounts Payable	209,416
Accrued Liabilities	50,296
Non-Current Liabilities	
Advances	4,603
Installment Purchase Agreements Payable--Due Within One Year	146,022
Installment Purchase Agreements Payable--Due in More Than One Year	85,205
Vested Employee Benefits Payable	<u>115,397</u>
Total Liabilities	<u>610,939</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	13,833,065
Restricted for County Roads	<u>947,962</u>
Total Net Assets	<u><u>\$14,781,027</u></u>

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,242,779
Local Road Maintenance	1,337,758
Net Equipment Expense	(28,178)
Net Administrative Expense	462,145
Infrastructure Depreciation	844,754
Compensated Absences	(40,253)
Interest Expense	<u>17,234</u>
Total Program Expenses	<u>3,836,239</u>
Program Revenue	
Charges for Services	
Licenses and Permits	31,305
Charges for Services	3,743
Operating Grants and Contributions	
Michigan Transportation Funds	3,254,704
Investment Earnings	5,725
Capital Grants and Contributions	
Federal Grants	101,805
State Grants	108,113
Contributions From Local Units	371,766
Contributions From Private Sources	<u>236,498</u>
Total Program Revenue	<u>4,113,659</u>
Change in Net Assets	<u>277,420</u>
Net Assets	
Beginning of Year	13,311,602
Restatement to Beginning of Year (Note J)	<u>1,192,005</u>
Restated Beginning of Year	<u>14,503,607</u>
End of Year	<u><u>\$14,781,027</u></u>

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2007

EXHIBIT C

GOVERNMENTAL
FUND TYPE

General
Operating
Fund

ASSETS

Bank Deposits	\$ 505,179
Accounts Receivable	
Michigan Transportation Fund	462,657
Due From Township Agreements	3,541
Sundry Accounts	1,025
Inventories	
Road Materials	222,602
Equipment Parts and Materials	132,671
Total Assets	<u>\$ 1,327,675</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 209,416
Due to State	
Accrued Liabilities	50,297
Advances	4,603
Total Liabilities	<u>264,316</u>
Fund Equities	
Reserved for Inventory	355,273
Fund Balance	
Unreserved and Undesignated	708,086
Total Fund Equities	<u>1,063,359</u>
Total Liabilities and Fund Equities	<u>\$ 1,327,675</u>

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2007**

EXHIBIT D

Total Governmental Fund Balance	\$ 1,063,359
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,064,291
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Other long-term assets are not available to pay for current period expenditures
and, therefore, are not reported in the funds.

Certain liabilities, such as compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(346,623)</u>
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Net Assets of Governmental Activities	<u><u>\$ 14,781,027</u></u>
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The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2007**

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 31,305
Federal Aid	101,805
State Aid	3,362,817
Contributions From Local Units	371,766
Charges for Services	3,743
Interest and Rents	5,725
Other Revenue	<u>236,498</u>
Total Revenues	<u>4,113,659</u>
Expenditures	
Public Works	3,583,783
Capital Outlay	11,790
Debt Service	<u>206,948</u>
Total Expenditures	<u>3,802,521</u>
Excess of Revenues Over (Under) Expenditures	<u>311,138</u>
Fund Balance--January 1, 2007	<u>752,221</u>
Fund Balance--December 31, 2007	<u><u>\$ 1,063,359</u></u>

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ 311,139
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Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(263,686)
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.	189,714
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense.)	<u>40,253</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 277,420</u></u>
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The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Kalkaska County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Kalkaska County Road Commission, a discretely presented component unit of Kalkaska County, and include the Road Commission Operating Fund.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Kalkaska County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories and Prepaid Items

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Kalkaska County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (manager) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board did not conduct a public budget hearing or adopt an operating budget prior to the start of the calendar year (January 1, 2007). The budget is amended as necessary during the year and is approved by the board.

Budget Violations

Public Act 2 of 1968, Section 19(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The following activities exceeded the amended budget:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Routine and Preventive Road Maintenance	\$ 1,129,081	\$ 1,242,779	\$ (113,698)
Net Capital Outlay	(426,000)	(252,377)	(173,623)
Debt Service			
Principal	180,000	189,714	(9,714)
Interest	11,054	17,234	(6,180)

NOTE D--CASH AND INTEREST-BEARING DEPOSITS

MCL 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated one bank for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INTEREST-BEARING DEPOSITS (Continued)

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 504,429
Petty Cash and Cash on Hand	<u>750</u>
Total	<u>\$ 505,179</u>

The bank balance of the primary government's deposits is \$512,380, of which \$100,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that change in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INTEREST-BEARING DEPOSITS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction (e.g., broker-dealer), a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE E--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Notes	Account Balances 12/31/06	Additions	Deductions	Account Balances 12/31/07
Capital Assets Not Being Depreciated					
Land and Improvements		\$ 95,964			\$ 95,964
Infrastructure Land Improvements	1	2,820,585	\$ 116,683		2,937,268
Subtotal		2,916,549	116,683	\$ -	3,033,232
Capital Assets Being Depreciated					
Buildings and Improvements		582,153			582,153
Road Equipment		3,778,121		28,402	3,749,719
Shop Equipment		34,523	11,790	4,098	42,215
Office Equipment		75,451		17,146	58,305
Infrastructure--Bridges	1	1,122,539			1,122,539
Infrastructure--Roads	1	16,580,429	716,764	606,985	16,690,208
Total		22,173,216	728,554	656,631	22,245,139
Less Accumulated Depreciation					
Land and Improvements		55,122	2,787		57,909
Buildings and Improvements		461,550	18,897		480,447
Road Equipment		3,212,126	240,496	28,402	3,424,220
Shop Equipment		34,523	1,081	4,098	31,506
Office Equipment		73,395	907	17,147	57,155
Infrastructure--Bridges		348,781	31,952		380,733
Infrastructure--Roads		6,576,293	812,801	606,984	6,782,110
Total		10,761,790	1,108,921	656,631	11,214,080
Net Capital Assets Being Depreciated		11,411,426	728,554	1,108,921	11,031,059
Total Net Capital Assets		\$ 14,327,975	\$ 845,237	\$ 1,108,921	\$ 14,064,291

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Note 1: There was a reclassification of the December 31, 2006 infrastructure balances, which removed the land improvements from the capital assets being depreciated to the capital assets not being depreciated, in accordance with the Michigan Department of Treasury's Uniform Chart of Accounts. Listed below is the effect of the reclassification and restatement to the capital assets:

	Original 12/31/06 Balance	Restatement/ Reclassification	Restated 12/31/06 Balance
Capital Assets Not Being Depreciated			
Infrastructure Land Improvements		\$2,820,585	\$ 2,820,585
Capital Assets Being Depreciated			
Infrastructure--Roads	\$ 19,279,569	(2,699,140)	16,580,429
Accumulated Depreciation			
Infrastructure--Roads	<u>(7,646,852)</u>	<u>1,070,559</u>	<u>(6,576,293)</u>
Infrastructure Asset Equity	<u>\$ 11,632,717</u>	<u>\$ 1,192,004</u>	<u>\$ 12,824,721</u>

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 240,496
Indirect Equipment	22,764
Net Administrative Expenses	
Office Equipment	907
Infrastructure Depreciation Expense	<u>844,754</u>
Total Depreciation Expense	<u>\$ 1,108,921</u>

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	<u>Balance 01/01/07</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
Installment Purchase Agreement for a four wheel drive loader paid in quarterly installments of \$7,711 at a rate of 3.9%.	\$ 44,679	\$ (29,528)	\$ 15,151	\$ 15,151
Installment Purchase Agreement for five trucks paid in monthly installments of \$12,295 at a rate of 3.0%.	366,113	(150,037)	216,076	130,871
Installment Purchase Agreement for a Broce Broom paid in monthly installments of \$1,186 at a rate of 10%.	10,148	(10,148)	-	
Vested Employee Benefits				
Sick Leave Benefits	<u>155,650</u>	<u>(40,253)</u>	<u>115,397</u>	
Totals	<u>\$ 576,590</u>	<u>\$ (229,966)</u>	<u>\$ 346,624</u>	<u>\$ 146,022</u>

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

A four wheel drive loader was purchased in July 2003 under an installment purchase agreement through John Deere. The original purchase price was \$140,813, with quarterly payments of \$7,711 at an implied interest rate of 3.9%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/07</u>	<u>Interest Payable if Held to Maturity</u>
07/20/03	\$140,813	3.90%	2008	<u>\$ 15,151</u>	<u>\$222</u>
Total				<u>\$ 15,151</u>	<u>\$222</u>

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Five trucks were purchased in July 2004 under an installment purchase agreement through Northwestern Bank. The original purchase price was \$633,510, with monthly payments of \$12,295 at an implied interest rate of 3.0%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/07</u>	<u>Interest Payable if Held to Maturity</u>
07/29/04	\$ 683,510	3.90%	2008	\$ 130,871	\$ 4,966
			2009	85,205	862
Total				<u>\$ 216,076</u>	<u>\$ 5,828</u>

Sick Leave Benefit Policy

Road Commission sick leave benefit policies provide that each employee, after six months of service, earns eight hours of sick leave for each month of employment. When an employee dies or terminates his/her employment on a voluntary basis, the employee or the employee's estate, as the case may be, will receive pay for 100% of an employee's accumulated sick leave up to the maximum accumulation of 640 hours.

Vacation Benefit Policies

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are required to use all vacation leave in the same calendar year in which it is earned.

NOTE G--DEFERRED COMPENSATION PLAN

The Kalkaska County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Kalkaska County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the calendar year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a). MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The Road Commission does not obligate the employees to contribute any portion of their salary to the plan. The Road Commission is required to contribute at an actuarially determined rate which was 27.31% of the annual payroll for the union, and 21.98% for administration based on the 2004 actuarial valuation beginning on January 1, 2006.

Annual Pension Cost

During the fiscal year ended December 31, 2006, the Road Commission's contributions totaling \$297,152 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required amortizing the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Ended December 31</u>	<u>Pension Cost (APC)</u>	<u>of APC Contributed</u>	<u>Pension Obligation</u>
2004	\$ 270,138	100%	\$0
2005	286,183	100%	\$0
2006	297,152	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$ 4,582,660	\$ 7,675,837	\$ 3,093,177	60%	\$ 1,125,839	275%
12/31/05	4,647,905	7,953,624	3,305,719	58%	1,045,685	316%
12/31/06	4,805,545	8,176,987	3,371,442	59%	1,123,414	300%

NOTE I--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note H, the Kalkaska County Road Commission provides post-employment health care benefits to union employees who retired from the Road Commission. There were several retirement windows open to employees during the last several years. In fiscal year 2006, there was a retirement window that gave employees the opportunity to retire that obtained age 55 with 20 or more years of service. During fiscal year 2007, there was a window from June 1 to July 31, 2007 that allowed union employees to retire after reaching a combined age and years of service of 75, regardless of age. All other employees may retire on or after attaining age 60 with 20 or more years of service, or those who retire under a valid disability claim regardless of age. The health care benefits consist of the Road Commission paying the monthly health insurance for union and nonunion employees until death (or until the retiree is covered under a health insurance policy from another employer) and for a period of three years after retirement (when retiree is 62-65) for spouses. The costs of retiree's health care benefits are recognized as expenditures as claims are paid. During 2007, 18 retirees were eligible for benefits, and \$141,135 was recognized for post-employment health insurance.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions for the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At December 31, 2007, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE J--RESTATEMENT OF NET ASSETS

As indicated in Note E, the net assets were restated as a result of breaking out the depreciable portion of the infrastructure that was previously reported as depreciable roads. The impact on the net assets is as follows:

	<u>12/31/06</u>	<u>Restatement to 12/31/06</u>	<u>Restated 12/31/06</u>
Net Assets			
Investment In Capital Assets-Net of Related Debt	\$12,715,031	\$ 1,192,005	\$13,907,036
Restricted for County Roads	<u>596,571</u>		<u>596,571</u>
Total Net Assets	<u>\$13,311,602</u>	<u>\$ 1,192,005</u>	<u>\$14,503,607</u>

KALKASKA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2007

EXHIBIT G

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 34,500	\$ 32,000	\$ 31,305	\$ (695)
Federal Aid				
Surface Transportation Program	880,000	-	63,628	63,628
Economic Development D Funds	400,000	-	38,177	38,177
Safety Grant	168,000	-	-	-
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,900,000	1,950,000	1,837,669	(112,331)
Local Road	1,112,000	1,190,000	1,173,476	(16,524)
Snow Removal	233,000	250,000	233,559	(16,441)
Economic Development Funds				
Forest Funds (E)	82,663	83,000	82,662	(338)
Rural (D)	520,000	-	25,451	25,451
Contributions--Local Units				
Townships	73,500	650,000	371,766	(278,234)
Charges for Services				
Salvage Sales	3,000	3,000	2,846	(154)
Other Charges for Services	240	201	897	696
Interest and Rents				
Interest Earned	2,400	6,000	5,725	(275)
Other Revenue				
Contributions From Private Sources		-	236,498	236,498
Total Revenue	5,419,303	4,174,201	<u>\$ 4,113,659</u>	<u>\$ (60,542)</u>
Fund Balance--January 1, 2007	<u>752,221</u>	<u>752,221</u>		
Total Budget	<u>\$ 6,171,524</u>	<u>\$ 4,926,422</u>		

KALKASKA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2007

EXHIBIT H

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,865,000	\$ 616,385	\$ 407,475	\$ 208,910
Routine and Preventive Maintenance	1,350,000	1,129,081	1,242,779	(113,698)
Local Road				
Preservation/Structural Improvements	210,000	563,448	425,972	137,476
Routine and Preventive Maintenance	1,520,000	1,341,202	1,337,758	3,444
Equipment Expense--Net	185,000	43,693		
Direct			\$ 695,436	
Indirect			445,515	
Operating			261,715	
Less: Equipment Rentals			<u>(1,430,845)</u>	71,872
Administrative Expense--Net	345,000	612,191		
Administrative Expense			465,142	
Less: Purchase Discounts			<u>(2,997)</u>	150,046
Capital Outlay--Net	(400,000)	(426,000)		
Capital Outlay			11,790	
Less: Depreciation Credits			(264,167)	
Equipment Retirements			<u>-</u>	(173,623)
Debt Service				
Principal	180,000	180,000	189,714	(9,714)
Interest	11,054	11,054	17,234	(6,180)
Total Expenditures	5,266,054	4,071,054	<u>\$ 3,802,521</u>	<u>\$ 268,533</u>
Fund Balance--December 31, 2007	905,470	855,368		
Total Budget	<u>\$6,171,524</u>	<u>\$4,926,422</u>		

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2007

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$2,252,859	\$1,820,536	\$ 40,264	\$4,113,659
Total Expenditures	1,863,338	1,987,204	(48,021)	3,802,521
Excess of Revenues Over (Under) Expenditures	389,521	(166,668)	88,285	311,138
Other Financing Sources (Uses) Interfund Adjustment	(250,000)	250,000		-
Total Other Financing Sources (Uses)	(250,000)	250,000	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	139,521	83,332	88,285	311,138
Fund Balance--January 1, 2007	-	66,874	685,347	752,221
Fund Balance--December 31, 2007	\$ 139,521	\$ 150,206	\$773,632	\$1,063,359

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended December 31, 2007

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits			\$31,305	\$ 31,305
Federal Aid				
Surface Transportation Program	\$ 63,628			63,628
Economic Development D Funds	38,177			38,177
State Aid				
Michigan Transportation Fund				
Engineering	5,664	\$ 4,336		10,000
Primary Road	1,837,669			1,837,669
Local Road		1,173,476		1,173,476
Primary Urban Road				-
Local Urban Road				-
Snow Removal	-	233,559		233,559
Economic Development Funds				
Forest Funds (E)	82,662	-		82,662
Rural Primary (D)	25,451	-		25,451
Contributions--Local Units				
Townships	199,608	172,158		371,766
Charges for Services				
Salvage Sales			2,846	2,846
Other Charges for Services			897	897
Interest and Rents				
Interest Earned	-	509	5,216	5,725
Other Revenue				
Contributions From Private Sources		236,498		236,498
Total Operating Revenue	\$2,252,859	\$1,820,536	\$40,264	\$4,113,659

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2007

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 407,475			\$ 407,475
Routine and Preventive Maintenance	1,242,779			1,242,779
Local Road				
Preservation/Structural Improvements		\$ 425,972		425,972
Routine and Preventive Maintenance		1,337,758		1,337,758
Equipment Expense--Net (Per Exhibit H)	(10,308)	(15,279)	\$ (2,592)	(28,179)
Administrative Expense--Net (Per Exhibit H)	223,392	238,753		462,145
Capital Outlay--Net (Per Exhibit H)			(252,377)	(252,377)
Debt Principal Payments			189,714	189,714
Interest Expense			17,234	17,234
Total Expenditures	\$1,863,338	\$ 1,987,204	\$ (48,021)	\$3,802,521



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

April 3, 2008

Kalkaska County Road Commission
Board of County Road Commissioners
1049 Island Lake Road
Kalkaska, Michigan 49646

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Kalkaska County Road Commission, a component unit of Kalkaska County, as of and for the year ended December 31, 2007, and have issued our report thereon dated April 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kalkaska County Road Commission's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kalkaska County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kalkaska County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kalkaska County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which is described in the accompanying Comments and Recommendations as Finding 05-9.

We also noted Other Matters that we reported to the management of the Kalkaska County Road Commission in the accompanying Comments and Recommendations as Findings 07-1 through 07-6.

This report is intended solely for the information of the Kalkaska County Board of Road Commissioners, the Road Commission's management, others within the Road Commission, Federal and State awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Kalkaska County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Kalkaska County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

The road commission is relatively small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the material and reportable weaknesses listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We did not find any material weaknesses or significant deficiencies, however we did have other matters which we have reported to the management of the Road Commission.

OTHER MATTERS

Revenue Control

Finding 07-1

Condition:

- Townships are billed directly by the operations/planning department, without the knowledge of or copies being sent to the finance office. The invoices are not recorded on the accounting records until payment is received by the township.
- Permits are billed to customers. However, the billings are not recorded in the financial records until after the year end.
- Past due billings are not reviewed timely, nor is an aged accounts receivable listing prepared.
- During 2007, there was an MDOT contracted project which had activity that was not reflected on the Road Commission's financial records nor was there any notification given to the accounting department regarding this project.

Criteria: The Government Finance Officers Association (GFOA) recommends governments establish a revenue control and management policy and review it on an annual basis. This policy should be appropriate for the size and resources of the government. The following factors, as applicable, should be considered in the development of a revenue control and management policy:

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS

OTHER MATTERS (Continued)

- Internal Controls--All aspects of accounts receivable and cash receipting shall be subject to proper internal controls that include segregation of duties, daily processing, timely deposits, reconciliation to applicable ledgers, automated system resources, physical security procedures and fraud reporting procedures.
- Accounting Practices--All receipts and receivables should be recorded in accordance with current authoritative standards and practices.
- Billing Practices--Accounts receivables should be established for services provided in advance of payment and there should be established terms for collection.
- Depositing of Received Funds--Treasury management should serve as the primary recipient for all revenue collection sites.
- Collection--Receivables should be collected in a timely manner. Specific procedures should be established for delinquent accounts.
- Returned Checks--There should be established procedures for processing and the collection of returned checks.
- Bad Debt--An allowance for doubtful accounts and a write-off policy should be established.
- Budgetary Review Responsibilities--Revenue collections and accounts receivable should be monitored in a timely manner.

Recommendation: We recommend that there be more communication between the accounting office and the operations/planning department that would enable billings and receivables to be recorded in the Road Commission's financial statements. A copy of all Federal/State project contracts should be given to the accounting office as well as any project voucher summaries related to those projects. Accounts receivable for permits should be established for services provided in advance of payment. However, funds should be collected prior to performing the service (or issuing the permits). Accounts receivable should be monitored in a timely manner and an aged accounts receivable should be made available to management. The board of road commissioners should make the final decision on any accounts receivable write-offs.

Rates and Fee Schedule

Finding 07-2

Condition: It appears that the Road Commission is not charging enough for certain services, such as driveway permits, signs, etc. The last time a fee schedule was updated was in 2003.

Criteria: Control activities for revenues and receivables in governmental units require:

- Rates and fees are to be approved by the governing body and publicly announced or published in accordance with applicable laws and regulations.
- The governmental unit has established procedures to ensure that all reimbursable costs or contract costs are billed and adherence to those procedures is periodically reviewed by the appropriate level of management or another appropriate person.

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS

OTHER MATTERS (Continued)

Recommendation: We recommend that the Road Commission establish procedures to ensure that all reimbursable costs or contract costs are billed and periodically reviewed by the appropriate level of management. The rates and fees (for signs, permits, etc.) should be updated to reflect current costs.

Position Description for Employees

Finding 07-3

Condition: Some employees do not have position descriptions and/or annual evaluations.

Criteria: The Accounting Procedures Manual for Local Units of Government in Michigan states the following: “Personnel needs to be competent and trustworthy with clearly established lines of authority that correlate to statutory or charter requirements. Organization charts should be developed that clearly communicate the lines of authority. Job descriptions should be maintained to ensure that employees are aware of the duties they are expected to perform and where those responsibilities end.”

- Provide employees with the appropriate training, guidance, and resources necessary to carry out their duties. Management needs to provide an appropriate level of direction and supervision. Employees also need to be aware of the proper channels to report suspected improprieties. Employees need to know that every employee has a responsibility for internal control;
- Make sure that policies and operating procedures in every department are written down and communicated to employees. Such documentation provides day to day guidance and will make training easier;
- Make certain that equipment, inventories, cash and other property are secured physically, counted periodically, and compared with control records. Financial records themselves are an important asset to which access should be limited;
- Ensure that records are reviewed and reconciled routinely by someone other than the preparer to verify that transactions are properly processed;
- Decision makers need to be provided with timely and accurate financial information to make budgetary and resource allocation decisions. If someone is to be held accountable for a certain responsibility, be sure to give them the necessary authority to complete that task. This will require that separate departments work together to achieve objectives for the local unit as a whole;
- Documentation and record retention requirements should be structured to provide reasonable assurance that all information and transactions of value are accurately recorded and retained.

Recommendation: We recommend that the Road Commission establish position descriptions and perform at least annual evaluations for all staff. Training and guidance should be provided to employees so that they may carry out their responsibilities in accordance with current standards.

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS

OTHER MATTERS (Continued)

Board Compensation (Commuting Miles)

Finding 07-4

Condition: During 2007, road commissioners received mileage reimbursement from their home to the Road Commission office for meetings. We could not find support from the county board of commissioners for this compensation.

Criteria: Travel to and from meetings (at the office) is not authorized unless it is part of the original compensation package. We could not find documentation to support that the road commissioners are approved for mileage reimbursement. According to IRS rules and regulations, all compensation is taxable and shall be reported as wages.

Recommendation: We recommend that the road commissioners get documentation from the county board of commissioners regarding reimbursement for commuting miles for meetings. We also recommend that the Road Commission include reimbursement for commuting miles for in house meetings as part of the payroll system. If it is not specifically included in the compensation plan approved by the county board of commissioners, it should not be reimbursed.

Pension Plan

Finding 07-5

Condition: The Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). Each year an actuarial report is prepared to determine the future funding requirements and the unfunded actuarial liability. Summarized below is the plan's annual pension cost, unfunded actuarial accrued liability and the percentage of covered payroll over the past 5 years:

Year	Annual Pension Cost	Unfunded Actuarial Accrued Liability (UAAL)	UAAL as a Percent of Covered Payroll	Employer Contribution (Payroll times Percentage)	
				Administration	Union
2002	\$ 212,415	\$ 2,594,522	234%	15.97%	19.02%
2003	225,478	2,756,973	268%	21.73%	19.83%
2004	270,138	3,093,177	275%	22.62%	24.28%
2005	286,183	3,305,719	316%	22.89%	26.59%
2006	297,152	3,371,442	300%	21.98%	27.31%
2007	not available at this time			22.30%	29.02%

Recommendation: We recommend that the board review the full actuarial report issued by MERS as part of their budgeting process and future planning. Before any additional plan changes are made, the board should be fully cognizant of the impact it will have of the future funding requirements of the pension plan.

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS

OTHER MATTERS (Continued)

Other Post-Employment Benefits

Finding 07-6

Condition: The Kalkaska County Road Commission has other post-employment benefits (Road Commission paid retiree insurance premiums) that meet the requirements established under Government Accounting Standards Board Statement (GASB) No. 45.

Criteria: Effective during 2008, GASB Statement No. 45 requires governmental units to retain the services of an actuary to determine and record the unfunded liability related to other post-employment benefits.

Recommendation: We recommend that the Road Commission obtain an actuarial report or use an authorized alternative method to determine the unfunded liability related to other post-employment benefits.

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS

Our examination revealed the following instance of noncompliance with State statutes and regulations.

General Appropriation Act

Finding 05-9

(Repeated with revision from the 2005 and 2006 audit.)

Condition: The Road Commission did not hold a public hearing before passing its 2007 budget. The 2007 budget was not adopted until February 26, 2007. At the start of the year, the Road Commission was incurring expenditures in excess of the budget (because there was no budget adopted).

During the year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the budget in total and for the following activities:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Routine and Preventive Road Maintenance	\$ 1,129,081	\$ 1,242,779	\$ (113,698)
Net Capital Outlay	(426,000)	(252,377)	(173,623)
Debt Service			
Principal	180,000	189,714	(9,714)
Interest	11,054	17,234	(6,180)

KALKASKA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

Criteria: MCL 14.434 Section 14 states: (emphasis added)

- (3) The chief administrative officer shall transmit the recommended budget to the legislative body according to an appropriate time schedule developed by the local unit. The schedule shall allow adequate time for review and adoption by the legislative body before commencement of the budget year. The recommended budget, when transmitted by the chief administrative officer, shall be accompanied by a suggested general appropriations act to implement the budget. The suggested general appropriations act shall fulfill the requirements of section 16.
- (5) The chief administrative officer shall furnish the legislative body information the legislative body requires for proper consideration of the recommended budget. **Before final passage of a general appropriations act by the legislative body, a public hearing shall be held.**

MCL 141.437 Section 17 (1) states: "Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal officer provide it with periodic reports on the financial condition of the local unit."

MCL 141.439 Section 19 (1) states:

- (1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.
- (2) The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.

Directive: We direct the Road Commission to comply with the above statutory budgeting requirements and to schedule and hold hearings as required by law. The board of commissioners should take appropriate action to ensure that the budget is adopted in a timely manner as required by law and expenditures do not exceed appropriations. The 2008 budget was adopted in accordance with PA 2 of 1968, as amended.